

***Not to be released until the speech starts!***

**Speech for the Annual General Meeting of  
Heidelberger Druckmaschinen AG**

**Thursday, July 27, 2017**

**Congress Center Rosengarten, Mannheim**

**Rainer Hundsdörfer  
Chief Executive Officer**

**The spoken word applies!**

## **Motto: Heidelberg goes digital**

### **Slide 1 (title):**

#### **Heidelberg goes digital**

Dear shareholders,  
dear shareholders' representatives,  
dear guests,

Can any of you still remember the mechanical engineering crisis back in 1993?

That's nearly 25 years ago, but I still remember it very clearly. Here's one reason why:

Back then, I was part of the management team at mechanical engineering company Trumpf in the little town of Ditzingen – just one hour's drive from here. I was at a crisis meeting with other management staff, including Trumpf's President Berthold Leibinger. At some point during this meeting, he suddenly came out with the following statement: "We should be like Heidelberger Druckmaschinen and build printing presses! They're not in crisis!"

For decades, ladies and gentlemen, Heidelberg was a shining light for Berthold Leibinger and many other top executives at mechanical engineering companies across the globe!

### **Slide 2:**

#### **Heidelberg will shine again**

Regrettably, it has lost some of its shine over the past ten years. But despite that, ladies and gentlemen, I still joined this company as CEO in November 2016!

And do you know why? Because to me, Heidelberg is still a shining light! And because I want to help it shine just as brightly as before. When I say brightly, I mean profitably and with strong growth.

My name is Rainer Hundsdörfer. I've held managerial positions in the mechanical engineering industry for over 30 years – above all in sales and production. And I'm PROUD of being able to put all my energy and experience into serving the shining light that is Heidelberger Druckmaschinen.

Our goal is NEW growth and NEW strength. And today I'd like to tell you how we aim to achieve this. Welcome to this year's Annual General Meeting, ladies and gentlemen. And many thanks for once again attending in such large numbers.

One year ago, my predecessor Dr. Gerold Linzbach was standing here talking to you. I discussed the new Heidelberger Druckmaschinen AG with him on several occasions. From the experience of these meetings and based on what I have learned since I arrived, I'd like to pay due respect to

- Gerold Linzbach,
- his Management Board team, and
- the employees of this company.

They've succeeded in getting Heidelberg back into the black. Following a tough reorganization process, the shining light is once again standing on a firm foundation. The restructuring is over!

But something else is clear. We still have a number of important steps to take on the way to gaining NEW strength. We now need to

- generate growth and
- improve profitability.

Neither of these things is back to shining light status just yet. We have a great deal of work ahead of us.

We need to hold our own in a competitive environment that is defined more than ever by technological changes – above all as a result of digitization. And that's a very challenging task.

If we want to emerge stronger long term from this difficult period, we need to spend the coming years finishing off what we've recently started. We need to get fit for long-term growth – and put even more into this than over the past five years.

And then, ladies and gentlemen, the stock market's pulse monitor – our share price – will move from being stable to an upward trend. A start has already been made. Heidelberg shares are regaining their favor with investors.

### Slide 3:

## **Shares outperform the SDAX**

Since the start of financial year 2016/2017, our share price has significantly outperformed the SDAX index.

After the analysts' conference in June – at which we presented not only the balance sheet for the financial year just closed, but above all our new strategy for the future – we were therefore all the more delighted that the share price continued its dynamic performance. No fewer than 10 of the 11 analysts who are monitoring our company now recommend buying Heidelberg shares.

The capital market is acknowledging our strategy, as underlined by the fact that investors converted around 95 percent of our €60 million convertible bond, which matured on June 30, into Heidelberg shares. This further reduced the company's debt and cut annual interest costs by around €5 million. Our profitability is also improving and the equity ratio is up by some 2.5 percent. This is an important signal for us and clearly confirms that we're on the right track.

But exactly like you, ladies and gentlemen, other investors and the analysts are now also expecting profitable growth. That's the management team's new number one task.

It requires us to move from the reorganization strategy with initial growth impetus to a focused growth strategy.

And it's reflected in our "HEIDELBERG GOES DIGITAL" motto.

We now need to continue in detail what we've started in broad terms over the past five years, in particular by boldly implementing new business ideas that deliver greater cost-efficiency and bigger growth opportunities.

To be very clear, ladies and gentlemen, I support continuous change.

This change, which must cover every little aspect of Heidelberg, will carry on demanding both TIME and ENERGY. We'll also need to invest MONEY. But I promise you we'll analyze each and every investment very carefully.

Initial successes are already evident. And I'll be telling more about that shortly.

#### Slide 4:

#### **Reorientation initiated successfully**

But before we look ahead, let's take a brief look back at financial year 2016/2017, during which we successfully initiated the reorientation process and achieved our goals.

- We were aiming to increase sales by up to 4 percent compared with the previous year and we recorded a slight improvement of 0.5 percent to €2.52 billion.
- There was a good reason why we didn't get closer to the target of 4 percent. Two acquisitions that were scheduled for the fourth quarter of the previous year only took place at the beginning of the current financial year.
- Overall, an increase in the EMEA region – Europe, the Middle East, and Africa – compensated for the weakness in China and Brazil.

In the final quarter of the last financial year, that is to say from January to March 2017, we achieved our best sales and result since 2008.

There were also encouraging developments in incoming orders. At the end of the last financial year, they totaled €2.59 billion, which represents an increase of 4 percent or €100 million. No other company in the sector matched this.

To show you we're heading in the right direction, allow me to briefly run through some other KPIs.

- Although the EBITDA margin for financial year 2016/2017 was slightly down on the previous year's level at 7.1 percent, it was in line with our targets. The costs of drupa played a particularly big role in this regard. EBITDA fell slightly from €189 million to €179 million, but the figure for financial year 2015/2016 included non-recurring income of €19 million. Our operating EBITDA therefore even improved slightly in financial year 2016/2017.
- It's the same story with EBIT. Factoring in the non-recurring income in the previous year, earnings before interest and taxes, like EBITDA, fell slightly – to €108 million – and our operating EBIT rose slightly.
- Last but not least, the net profit climbed from €28 million to €36 million.

Ladies and gentlemen, all these figures lay a foundation on which we can build.

## Slide 5:

### **Sustainable and profitable growth**

And what form do we want this to take? Our growth targets remain the same as one year ago. In the medium term – which we see as the next five years – we’re looking to increase sales by up to €500 million to as much as €3 billion.

We intend to achieve this as follows:

- Growth in sales of digital presses is to contribute an additional sales volume of €200 million.
- We’re planning to generate a further €250 million in additional sales by digitizing our existing equipment, service, and consumables business models. Our consumables currently have a market share of just 5 percent, so we see great potential here that we can harness both organically and through acquisitions.
- And we’re aiming to deliver the remaining €50 million of the planned €500 million sales increase using completely new business models and platforms. More about that, too, shortly.

Our medium-term profitability target also remains the same. Based on the target sales of €3 billion, we’re planning an EBITDA margin of up to 10 percent, that is to say €250 million to €300 million profit before interest, taxes, depreciation, and amortization. Following the EBITDA result of €179 million in the last financial year, that would represent an improvement of around €100 million by 2022.

This amount of roughly €100 million will be achieved through a €50 million increase in EBITDA as a result of digitizing the business model, the new Labelfire and Primefire digital presses, and the associated growth in sales.

Improvements in cost-efficiency will generate the remaining €50 million or so. I’ll explain the relevant measures shortly when I talk about operational excellence.

The bottom line is a potential increase in the net profit to nearly €100 million by 2022.

## Slide 6:

### Profits in three strategic areas

Now to the intriguing questions this raises:

1. How do we intend to achieve these goals?
2. What are the consequences for our day-to-day work?
3. And what success factors and strategic measures are required?

The success criteria we need if we're to shine again are

- technology leadership,
- digital transformation of our business models, and
- operational excellence.

Our strategy is to become a world leader in these three areas!

Digital transformation means

- networking internal customer processes,
- networking processes between the customer and our company, and
- using a digital business model in the lifecycle phase to boost our customers' productivity.

And operational excellence means

- maximum efficiency in all processes
- and thus leaner operational and administrative structures.

We're still far from being efficient everywhere.

By combining these three success criteria, Heidelberg will provide its customers with a unique experience. If we make our customers successful, we'll be successful, too.



Before I go into further detail, let's take a quick look at the overall market potential.

### Slide 7:

#### **Focusing on growth segments**

Printing is alive, ladies and gentlemen! The print production volume for this calendar year will be in the order of €410 billion. The estimated average annual growth rate in the period between 2014 and 2021 is 1 percent, but the digital print volume is growing at an annual rate of 6 percent!

Packaging accounts for 25 percent of all print products and, with an annual growth rate of 3 percent, packaging printing is growing faster than any other market segment. This is because packaging is becoming increasingly important for the success of a product strategy.

### Slide 8:

#### **Growing along with the print production volume**

The markets accessible to Heidelberger Druckmaschinen currently have an annual sales volume of

- €2.4 billion for sheetfed offset,
- €2.5 billion in the digital sector, and
- €8 billion for consumables.

If we succeed in taking full advantage of our unique position in sheetfed offset printing, our market shares in the other two sectors will increase almost automatically. To achieve this, however, we need to gear our strategy and our organization toward growth segments.

Let's now take a look at

- what we've already done to achieve operational excellence, a digital transformation, and technology leadership,
- our current position, and
- our future plans to leverage our potential.

Do you still remember last year's drupa?

We made an impressive start to our digitization campaign and promised to take traditional business into the digital future. We've made outstanding initial progress in the area of technology, receiving numerous orders from enthusiastic customers both during and after drupa. This played a key role in boosting incoming orders by €100 million.

Many customers are already working successfully with the new Heidelberg products and are benefiting from

- lower costs,
- higher productivity,
- more efficient processes, and
- maximum flexibility with regard to their end customers.

New digital printing technologies are our main success factor in this respect.

Today, I'd like to highlight three key players in this development:

FIRSTLY, the Primefire 106 unveiled at drupa.

- This is the first industrial digital printing system in B1 format for new applications in packaging printing – a true pioneer.
- With this innovation, ladies and gentlemen, we're shaping the technical revolution in packaging printing!

Packaging printing accounts for some 30 percent of our sales and we're the world market leader in this sector. What's more, digital packaging printing is a highly

attractive segment. Only 3 percent of digital presses are currently already used for packaging printing. Just 5 percent of all packaging that is of relevance to us is printed digitally. And yet the segment is growing at an annual rate of around 17 percent. We're targeting this market in particular with our Primefire press. Its development is completely on schedule and is based on the interplay between Heidelberg technology and the tried-and-tested inkjet system of our partner Fujifilm. We've now also gained attractive pilot users for the system.

A Primefire has been in operation at the Obersulm site of Multi Packaging Solutions since January 2017 and is helping to make the international packaging producer's customers particularly flexible in responding to developments at the point of sale.

### Slide 9:

#### **Growth through technology leadership**

We're also delighted that Colordruck Baiersbronn, a packaging printer operating throughout Europe, decided not to go along with our digital competitors and opted for the Primefire. As Managing Director Martin Bruttel explains:

“The Primefire 106 makes us more flexible, so we're able to respond faster to market trends and successfully implement new business models. Heidelberg is the right partner to have at our side.”

August Faller GmbH has also recently opted for the Primefire. This company specializes in secondary packaging for the pharmaceutical and healthcare industries.

### Slide 10:

#### **Growth through technology leadership**

SECONDLY, I'd like to tell you about the digital printing technology of the Gallus Labelfire 340, which is setting new standards in label printing. Series startup has

already taken place and numerous systems have been installed, including at U.S. label printer Info Label in January 2017. The company's President Mark Dufort recently wrote the following to me:

“The team from Gallus and Heidelberg provided us with a huge amount of support to ensure our investment in the Labelfire meets all our financial and production requirements. The main advantage of this new technology is that it shortens our time to market. The system boosts our production efficiency while also improving our print quality.”

As you can see, this technology has given label printers exactly what they were looking for. The Labelfire is setting new standards in the growth market of digital industrial label printing in terms of print quality, flexibility, and productivity.

### Slide 11:

## **Growth through technology leadership**

Last but not least, we're also extremely proud of our new Speedmaster generation with its Push to Stop operating philosophy.

Customers used to have to work hard setting up our presses manually before they could start printing, and printing efficiency depended to a large extent on the operating personnel's expertise.

With the Push to Stop concept, operators only need to intervene in the process if something isn't quite right. That's all! The system handles everything else itself – and does so autonomously with far higher printing efficiency. In other words, our customers benefit from faster and more cost-effective top-quality production!

Push to Stop was the big hit at drupa. This philosophy has set a new market standard. Customers want it – and only Heidelberg has it.

For example, UK print shop Falkland Press last year invested over €3.5 million in digitized production workflows with new equipment from us.

Since the end of last year, the Speedmaster XL 106 from the latest drupa generation has also been part of its production operations. Falkland Press tells us that it was able to take full advantage of the Push to Stop concept, even when simply producing signatures for books, and the individual jobs are processed automatically.

Online print shops are also using our systems to advance digitization in the sector. For example, the Managing Director of our major customer Onlineprinters, Michael Fries, was recently quoted in the Wirtschaftswoche business magazine as saying: “Only thanks to the digitization of our equipment are we also able to handle short runs in offset printing, offer low prices, and survive in the online printing market.”

As you can see, our customers are highly enthusiastic and our Speedmaster XL 106 order book is full up till the end of 2017. We’re even thinking about expanding production capacities.

What’s more, the dwindling influence of printers due to autonomous printing is paving the way for new business models. I’ll be talking about the new subscription model in offset printing a little later.

## Slide 12:

### **Growth through technology leadership**

We’ll continue to highlight our pioneering role going forward. One final example is that we’ll be building our four Gallus label presses on a single Labelmaster platform in the future! You’ll be familiar with the platform concept from the automotive industry, which has been using a joint platform for different Mercedes, Audi or Porsche models for some time now.

This innovation reduces manufacturing complexity and, consequently, production costs for the Gallus series. The saving amounts to some 30 percent.

If we as a group maintain our technology leadership, ladies and gentlemen, we can generate additional sales of €200 million by 2022 with digital presses. I referred to this figure earlier.

Let's now turn to the second of our three new strategic areas – digital transformation. This should not be confused with digital printing or technology leadership. Digital transformation means taking the ENTIRE business model, that is to say the whole company, into a digital future.

Business model innovations focus on customer benefits in all areas –

- equipment,
- software,
- services, and
- consumables.

As you know, we're ideally placed for this worldwide thanks to the 10,000 or so machines that are already digitally connected to our service offerings. Here, too, the challenge we face is as follows:

Introducing new solutions without abandoning old, tried-and-tested ones. If we succeed, we're expecting digital transformation alone to bring us additional sales of €250 million by 2022. That's also something I mentioned earlier.

### **Slide 13:**

## **Stronger through digital transformation**

I'd like to take a look back at the digital transformation strategy. What have we already achieved?

At drupa 2016, for example, we unveiled the Heidelberg Assistant. It provides customers with complementary digital assistance systems via a state-of-the-art portal to make their print shops even more flexible. The Heidelberg Assistant is a cutting-edge interface between customers and their Heidelberg systems – but also between them and us.

For example, customers can obtain their latest performance data from us at the touch of a button. It's also quick and easy for them to access the Heidelberg eCommerce shop to order printing plates, inks, and other consumables for next-day delivery. At Heidelberg, customers get everything from a single source.

Print China – the biggest print media trade show in the world this year – took place in Beijing in May. Our new developments for packaging and commercial printing took center stage at this event. For example, we unveiled a Speedmaster CX 75-4 with Drystar LED technology. This combines the Speedmaster XL 75 platform with components of the Speedmaster SX 74 – for highly automated, completely integrated print production.

The Heidelberg Assistant was actually only intended as an added extra for this trade show, but we then found visitors racing to our stand to see it. The staff manning our stand were hoarse after three days!

A further piece of good news is that things in China are gradually picking up again after three very slow years. It remains an extremely important market for us, because print volumes for packaging have been growing faster there than anywhere else in the world since 2015. And there finally appears to be some further potential for growth again.

HOWEVER, our business model is still predominantly based on single transactions, which means customers decide on their input factors and pay us for each product. Although Heidelberg customers are very loyal, they're always looking for potentially

more cost-effective options. In the area of consumables, for instance, we're competing with ink retailers and manufacturers.

The problem with this is that if we want to generate a large sales volume as an intermediary, customers will sooner or later go direct to the manufacturers to save themselves our mark-up. That's understandable, isn't it?

Similarly, the Heidelberg Assistant automatically decides when the customer needs particular products from the Heidelberg shop based on the workflow. Although this tool enables our customers to purchase items such as consumables fully automatically from us, they also use our shop to buy consumables that aren't from Heidelberg but from other suppliers. We at least receive a transaction fee for this, which makes us like Amazon on the retail market.

In other words, we also provide third parties with a marketplace for business we'd prefer to do ourselves. This will probably remain the case for a while, but we're now gradually and patiently beginning to change things. This marks the start of our digital business model and our acquisition strategy for the future. And I'm taking things a lot further than my predecessor Gerold Linzbach.

As I see it, digital transformation for Heidelberg means positioning offerings such as the Heidelberg Assistant between our customers and consumables manufacturers such as ink factories. We want to offer EVERYTHING associated with our customers' operations.

### **Slide 14:**

## **Stronger through digital transformation**

To achieve this, we'll need to strengthen our business with inks, coatings, pressroom chemicals, and other consumables in the years ahead. A key step in implementing our growth strategy was the recent acquisition of Fujifilm's coatings and pressroom chemicals business in Europe, the Middle East, and Africa.



Developing our market position in this segment means customers benefit from

- comprehensive application expertise,
- a combined performance promise as well as
- purchasing advantages and synergies within our portfolio.

The latest annual sales of this Fujifilm division amounted to some €25 million. We're planning further acquisitions in the consumables sector in the future in tandem with organic growth.

We also need to be a one-stop shop based on the Amazon model to take another very different step into the future.

### **Slide 15:**

### **Growing along with the print production volume**

We're looking to establish a new revenue-based approach with our customers for both digital and offset printing. In the future, we'd like to increasingly switch our product sales agreements to lifecycle or subscription agreements.

In other words, Heidelberg decides the input required by our customers. The available customer data puts us in the ideal position to do so and customers can then focus on their core skills.

The aim is for our remuneration to be based on our customers' increasing output in printed sheets rather than on machine requirements, which are gradually decreasing. In other words, customers are no longer going to be paying for our input factor but for their output – the printed sheet.

We're busy developing attractive, performance-based agreements for defined customer groups – like our neighbor SAP. This shining light of the software sector started getting

customers to pay for its software according to intensity of use years ago, so SAP benefits from their growth. We'd like to take the same approach.

So we no longer simply want to become the Amazon of printing, but also the SAP of the industry. Here, too, I'm taking the approach initiated by Gerold Linzbach to a whole new level. Let's admit it, ladies and gentlemen:

With our old business model focusing exclusively on selling equipment and associated services, we as good as cut our business volume ourselves by developing ever better machines. By making our equipment increasingly productive, we also gave ourselves fewer sales opportunities! Customers benefited far more than we did – just think of the ever higher outputs and longer service lives of our machines.

Our customers became more successful, but we were less so. In the future, we'll break away from this unfavorable trend for Heidelberg and obtain a share of customers' productivity gains and output – a win-win situation at the end of the day!

Win-win means customers' costs will be lower than at present and we'll benefit from being able to determine the use of input factors – equipment, software, services, and above all consumables.

### **Slide 16:**

### **Growing with new business models**

Our growth will then be based far less on one-time machine sales and much more on machine lifecycles, some of which extend over decades.

That will work if we prove to customers that our process expertise enables us to get even more out of the machines than they can. And that we can lower their printing costs, because with our help they can print more sheets at the same cost.

Another unbeatable advantage of the type of digital transformation I've just described is as follows:

Customers using our new performance-based price model will be more successful than those who initially don't. Because our equipment the world over is fitted with thousands of sensors.

- None of our competitors have this basis.
- None of our competitors have as much data.
- None of our competitors can therefore use it to improve customer processes.
- And none of our competitors have such a comprehensive service network.

It won't be easy for competitors to copy this business model.

Ladies and gentlemen, I've now explained how we intend to generate additional sales of €250 million by 2022 through the digital transformation of our entire business model and a further €200 million through our technology leadership. That leaves another €50 million to reach the target of a €500 million increase in sales. And we're aiming to generate this additional amount with completely new digital platforms.

### **Slide 17:**

## **Growing with digital platforms**

The digital transformation now also includes making our in-house expertise available to generate profits for other companies operating outside our core area of business – companies, for example, who are unable to get a business up and running efficiently on their own. What I'm referring to in particular here are IT solutions for the

- design,
- production, and
- maintenance

of innovative high-tech products for industrial customers. Our focus for the future will be on the automotive, mechanical engineering, and medical technology sectors.

In the software and engineering segments in particular, we can help companies develop their own products with our Industry 4.0 engineering applications.

### Slide 18:

#### **Growing with digital platforms**

As part of our digital growth strategy, we took over DOCUFY GmbH in Bamberg on May 1, 2017. This company develops software for technical documentation and visualization along the entire value chain, which makes it an excellent fit for our new platform strategy. DOCUFY recently generated sales of €6.5 million with around 80 employees.

The aim of this acquisition is not to increase sales, though, but to obtain specialist IT know-how for digitizing and automating processes for the

- design,
- production, and
- servicing

of innovative high-tech products.

In simple terms, Heidelberg will supply a cloud-based platform and production capacities for companies that can't or don't want to set up their own development and production infrastructure but need to bring their products to market quickly.

The global market we're targeting currently offers potential sales of around €1 billion.

Achieving additional, profitable sales of €50 million by 2022 is thus entirely feasible!

### Slide 19:

## Growing with digital platforms

Now for a concrete example of how we're looking to generate these sales. The Berlin-based start-up company BigRep has developed a prototype for a 3D printer that enables customers from the automotive and mechanical engineering industries, for example, to produce their own prototypes of specific products. We produce this 3D printer. BigRep simply needs to feed its data into our platform – and then we can get started. With business models like these, we can market free production capacities all over the world.

### Slide 20:

## High-tech campus at headquarters

We can turn the free capacities at the Wiesloch-Walldorf site into a high-tech campus that would be extremely attractive to start-up companies. We not only have

- the infrastructure,
- the IT resources,
- and the Internet hub for this,
- but also a canteen,
- an HR department, and
- financial services.

The key concept here is shared services. The high-tech park doesn't form part of our core strategy, but it delivers additional benefits for us and our new customers.

Let's now turn to the third and final aspect of our "agenda 2022" strategy – operational excellence. What have we achieved here to date?

Capacities at Heidelberger Druckmaschinen have been largely adapted to market conditions in recent years. After 2007/2008, we had

- too much space,
- surplus production capacities in some areas,
- too many levels in the hierarchy,
- too many managerial staff, and
- too many employees.

The painful cuts in recent years were absolutely vital to achieve a turnaround and move from being deep in the red to profitability.

Despite this, ladies and gentlemen, the above-mentioned problems still exist in some areas. Although we've laid the foundation, we now need to take things further. A detailed analysis shows that

- the organizational structures,
- workflows, and
- production processes

are far from being appropriate in all areas. As a result, our company is still too slow and too expensive.

### **Slide 21:**

## **Operational excellence boosts profits**

And what does that mean for us right now?

Operational excellence means

- targeted streamlining and structural optimization,
- lean and flexible processes,
- flexible development,
- flexible production,
- platform concepts and reduced complexity,

- new wage structures,
- an optimized site concept,

and thus:

- improved competitiveness and
- a €50 million saving in process and structural costs by 2022.

If we want to achieve our goals in the two above-mentioned strategic areas of

- technology leadership and
- digital transformation,

we need to take a critical look at every level in the hierarchy, every decision-making channel, every communication structure, and every operational process in each and every department at our company and adapt these in line with market requirements if necessary.

Otherwise, Heidelberg will be unable to respond with agility and flexibility to the ever more dynamic changes in customer requirements. This applies to all areas of the company –

- production,
- development, and
- administration.

I support less rigid management stipulations and

- more personal responsibility,
- latitude, and
- creativity

for our 11,500 employees at the 250 sites in 170 countries. This is the only way for staff to become entrepreneurs at the company.

Amazon and SAP wouldn't be as successful today if their management boards had planned the company's growth on a strictly hierarchical basis!

Heidelberg employees must now strive for the best solutions in all areas. It doesn't matter who comes up with the best suggestions.

Let me give you five examples of what we're currently doing along these lines:

First up is an excellence project in the administrative department that we're hoping will make us faster, leaner, and more flexible, with initial measures to be derived and a start made on implementation in August.

The second example is our objective of moving from the traditional relationship-driven activities of our global sales and service teams to far more emphasis on data support. We need to make much better use of our machine-generated data so as to organize sales and service activities accordingly.

We're also in the process of improving the structures in production and related areas. For instance, we've introduced a new wage structure in logistics that was rolled out in consultation with the Works Council at the end of May. We can now provide our internal and external logistics services based on competitive wage levels.

### Slide 22:

#### **Operational excellence boosts profits**

The third example is the purchase of the World Logistics Center at our headquarters in Wiesloch-Walldorf before the lease ended. Along with the above-mentioned adapted wage structures, this is a further step toward more efficient logistics.

Number four in the list is turning Hall 10 into a research and development center by fall 2018 with the aim of bringing these activities closer to our production and service operations. We've even obtained a loan from the German reconstruction loan corporation KfW for this.

### Slide 23:



## Operational excellence boosts profits

The fifth and final example is performing a benchmark comparison with similar mechanical and plant engineering companies – that is to say with annual sales exceeding €500 million and more than 2,500 employees – so as to be able to show objectively within the context of our operational excellence process where the most potential lies, for instance in the structures of our indirect areas.

We're also risking an industrial comparison in open competition, for instance by aiming to gain a "Factory of the Year" award for our production operations! This contest was initiated at the beginning of the 1990s to help ensure Germany's mechanical engineering industry never experiences another existential crisis. It has now gone international, with German companies leading the way.

Ladies and gentlemen, the quest to be named "Factory of the Year" has been an incentive for managers, engineers, foremen, and teams of employees from the best industrial companies for 25 years. Why not for us as well?

### Slide 24:

## Building a future on solid finances

Ladies and gentlemen, I've now set out our strategy for the future, based on the strategic areas of

- technology leadership,
- digital transformation, and
- operational excellence.

You've seen and heard what we'll be doing to once again become the shining light of the sector. The current financial year will therefore be a transitional year that Heidelberg must be able to afford.

And can we afford it now? That's a question for our CFO Dirk Kaliebe. His particular ambition is for Heidelberg to build its future on solid finances. And we're making progress with that, too.

Our cash position at the end of financial year 2016/2017 is slightly better than in the previous year, improving from €215 million to €218 million. This means we can afford to make acquisitions and internal investments.

The net debt has fallen from €281 million to €252 million, which also gives us some room for maneuver. The leverage – that is to say the ratio of net debt to profit – is below our target level of 2 at 1.4. As long as we remain below 2, we could theoretically repay our entire net debt from the operating result in just under two years. The conversion of our bond at the start of the new financial year further reduced the net debt.

Shareholders' equity climbed from €287 million to €340 million and – at 15 percent – was thus 2 percent higher at the end of the financial year just closed than in the year before. The increase is encouraging, but both the equity ratio and the equity yield rate must improve significantly. This is something we're working on. Converting the bond has already led to a further increase of around 2.5 percent in shareholders' equity.

In view of this and given the continuing major strategic challenges, ladies and gentlemen, we're not planning to pay out any dividends for the time being. We must reach a sustainable equity ratio of over 20 percent for the Group before we can do so and we'll feel comfortable once this ratio is above 35 percent. This is another goal that we'll be addressing and achieving in the years ahead.

We're well aware you can't be satisfied with this, so we're doing everything we can to see that you once again benefit from share price gains. As I indicated at the beginning of my speech, we've made some initial progress with this, too. And that can only be the start.

## Slide 25:

### **Optimized financing framework**

We'd also like to improve our financing framework.

- One task in recent years has been to reduce financing – and we've halved it from €1.4 billion to the current level of €700 million. Not only is the volume of business smaller, but we've also succeeded in significantly reducing the tied-up capital.
- A second task was to diversify the maturities of financial instruments so that we no longer need to service debts by 2022. And we've been successful in this, too.
- In July, we largely converted a convertible bond. All that remains is the €200 million corporate bond. This matures in 2022, but we're looking to use existing funds to start repaying it from the coming year onward.
- Our ongoing task is thus to reduce the interest on liabilities.

## Slide 26:

### **Further cutting interest costs**

Our interest payments in the last-but-one financial year totaled €54 million. In the financial year just closed, this had fallen to €34 million. And in five years' time, it should be down to a level of €20 million.

This would result in a total cost saving of €14 million.

## Slide 27:

### **Digital growth at Heidelberg**

I'd like to close by once again summarizing our goals:

Sales will remain at the previous year's level this year because

- we're looking to move away from low-profit, risky sales and
- won't be able to get the new strategies off the ground overnight.

It will be a gradual process. By 2022, we're planning an increase of €500 million to around €3 billion.

The average EBITDA margin for this year will be between 7 and 7.5 percent, with Digital Business & Services a little stronger than Digital Technology. We're aiming to achieve an average of around 10 percent by 2022 and improve EBITDA by €100 million.

The net result should increase slightly this year and then climb from €36 million in the financial year just closed to as high as over €100 million. The target leverage remains at less than 2.

Start of Q1 of financial year 2017/2018

Financial year 2017/2018 has started off as expected. Sales were still benefiting from the strong end to the previous financial year. The acquisitions we've made will be integrated this year and will only become fully effective in the next financial year. Overall, we're also expecting sales in the second half of this year to be significantly higher than in the first half. Things are already moving in the right direction on the operational side.

## **Slide 28:**

### **Heidelberg will shine again**

Following the end of the reorganization phase, ladies and gentlemen, Heidelberger Druckmaschinen MUST now transform and enter a new era of growth – an era of

digital growth! If we succeed in this in the years ahead, we'll once again become a shining light of German industry.

And I repeat my promise that, as CEO, I'll put every ounce of my energy into this great company.

I appreciate your trust – and your kind attention.

Many thanks.

*End*

**Important note:**

This release contains forward-looking statements based on assumptions and estimations by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the Management Board is of the opinion that those assumptions and estimations are realistic, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the macro-economic situation, in the exchange rates, in the interest rates and in the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft gives no warranty and does not assume liability for any damages in case the future development and the projected results do not correspond with the forward-looking statements contained in this press release.